

The Swiss Welfare State: Features, Challenges, Innovations

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Structure

- > Major elements of the Swiss welfare state
- > A conservative welfare state with strong liberal roots and a social-democratic element
- > Being late twice: delays in creating the old and the new welfare state
- > Dealing with challenges: Pragmatic layering-the case of old age pensions
- > Innovations? Advantages and disadvantages of constrained politics

Exchange rates and benchmarks

- > 1 Swiss Francs (CHF) = 7 Yuan (i.e. times seven)
- > Median monthly wage Switzerland: 6'000 CHF=42'320 Yuan
- > Health insurance 380 CHF/months per person=2'660 Yuan
- > Rent for a 2 bedroom flat 2000 CHF=14'000 Yuan

Major elements of the Swiss welfare state

Pensions

About 70% of all social security spending is pension spending. A three-pillar system with some add-ups

- > **1st pillar: Old Age and Survivors' Insurance (AHV), effective since 1.1.1948 (about a quarter of of social security expenditures)**
- > Contributions (in % of earnings): Employer 4.2%, Employee 4.2%. Self employed: 7.8%
- > Assessable Contribution Ceiling: No ceiling
- > Benefits: Retirement benefits. Single: Minimum 1'170 CHF; Maximum 2'340 CHF/Married couple: 150% of single retirement pension, i.e. minimum 1'755 CHF, maximum 3'510 CHF
- > Benefits payable from 65 years (men) and 64 years (women) to death
- > Insured: All residents except foreigners in the diplomatic service

Source of recent data: Bundesamt für Sozialversicherungen, Schweizerische Sozialversicherungsstatistik 2017, Bern: BSV 2017

Major elements of the Swiss welfare state

Pensions: Swiss Pension Fund Law (occupational insurance), the so called ‘2nd pillar’, effective since 1.1.1985– but a long history. Occupational pensions started already in the 19th century. The oldest system. For medium-high income earner the most important source of pension income. About a third of all social security payments are from the 2nd pillar.

- > Contributions (in % of ‘coordinated earning: wage minus 24’000 CHF): employees 7.7%, employers 10.5% of insured wages. No contributions are paid for annual earnings below 21’150 CHF.
- > Benefits: Retirement benefits equaling 7.2% per year of accrued retirement assets as retirement pension. Guaranteed interest rate on assets: 4%.
- > In some funds, the whole assets can be obtained at the time of retirement as a lump sum, in all funds at least 50%. Before retirement age assets can be used to amortize mortgages for houses and flats. Alternatively, they can be used as securities, pledgeable to banks who are financing houses/flats of the employee.
- > Benefits payable: From age of retirement to death.
- > Insured: all employees over 25 years of age and with annual salaries exceeding 21’150 CHF

Major elements of the Swiss welfare state

- > **Pensions: 3rd pillar**
- > Type: Tax-deductible savings/contributions to life insurance.
 Contributions: Voluntary, up to the annual amount of CHF 6768 (employees). Usually only high-income group can afford this additional saving --- and for them the tax rebate is particularly high. Matthew effect.
- > Benefits: Savings can be used at the time of retirement or for financing houses/flats.
- > Accessible by all employees and self employed (higher contributions)
- > In 2017 a total of billion 56.8 is in the 3rd pillar – a number of problems of investing this sum.

Major elements of the Swiss welfare state

- > **Pensions: additional pensions (“Ergänzungsleistungen”), 3% of all social security expenditures are additional pensions for about 13% of all pensioners.**
- > Type: Additional pensions, effective since 1966
- > Financing: From tax revenues, between 10-35% of cost covered by federal state, remaining costs covered by cantons
- > Benefits: The constitution states that pensions for age and disability have to cover the cost of living (subsistence level). In some cases – if the contribution period to the funds of the age insurance of the first pillar have been too short – normal pensions are below this subsistence level. In this case, additional pensions are paid to achieve the subsistence level. Eligibility is restricted to Swiss citizens and foreigners, who lived for an uninterrupted period of at least 15 years in Switzerland.

Major elements of the Swiss welfare state

- > **Disability Insurance (about 6% of all social security expenditures is for disability)**
- > Contributions (in % of earnings): 0.7% employer, 0.7% employee. Self-employed: 1.4%
- > Benefits: Disability benefits, corresponding to the single retirement pension of the first pillar.
- > Benefits payable: From: Immediately for permanently disabled, otherwise 360 days waiting period, to: recovery, beginning of old age pension, or death.
- > Insured: All residents except foreigners in the diplomatic service.

Major elements of the Swiss welfare state

- > **Military service/loss of earnings (< 1% of all social security expenditures)**
- > Income Replacement Scheme.
- > Contributions (in % of earnings): Employer 0.225%, employee 0.225% of wages. Self-employed: between 0.240% and 0.45% of income.
- > Benefits: for loss of earnings during military service, depending on income and marital status.

Major elements of the Swiss welfare state

- > **Sickness** insurance, effective since 1911; compulsory since 1994. Many cantonal precursors. About 18% of all social security expenditure is due to sickness insurance
- > Financing: Insured has to pay per capita contributions, independent from income and marital status. Children have a reduced contribution, but contribution still has to be paid per capita. State subsidies.
- > Benefits: Usual medical treatments, excluding dental. Insured have to pay the first CHF 300 for doctor bills, and (up to an annual maximum level) they have to cover 10% of medical treatment costs.
- > Insured: All residents. Compulsory insurance in (mostly) private mutual funds

Major elements of the Swiss welfare state

- > **Accidents/occupational diseases**, effective since 1911. About 4% of all social security expenditures are for accidents/occupational diseases.
- > **Financing:** Employers pay contributions according to danger classification of the job. Employees pay for non-occupational accidents.
- > **Benefits:** Medical treatment, disability benefits, death benefits.
- > **Insured:** All employees

Major elements of the Swiss welfare state

- > **Unemployment insurance**, effective since 1984. About 4% of total social security expenditure is for unemployment.
- > Contributions in % of earning: Employers 1.1%, employees 1.1%.
- > Assessable contribution ceiling: Annual income of CHF 148'000; temporarily, 0.5% of the annual income above CHF 148'000.
- > Benefits: Between 70% and 80% of previous income (ceiling: CHF 148'000 p.a.), depending on dependants.
- > Duration: Maximum 520 days.
- > Insured: All employees.

Major elements of the Swiss welfare state

- > **Family allowances:** effective since 1952 for agriculture, extended to all employees 2009, about 4% of all social security expenditures is for family allowances. Strong interaction/co-ordination with Cantons
- > Financing: Employer's contribution.
- > Benefits: Children allowances.

Major elements of the Swiss welfare state

- > **Maternity insurance**, effective since 2005.
- > Less than 1 % of all social security expenditures are for maternity insurance.
- > Financing 0.225% of wages by employers and 0.225% of wages by employees. Self-employed: between 0.240% and 0.45% of income.
- > Benefits: Daily allowances for mothers for a maximum of 14 days.

Major elements of the Swiss welfare state

- > **Social assistance.**
- > Social assistance is up to the Cantons (states) and the municipalities.
- > Expenditures for social assistance corresponds to about 1.7% of all social security expenditure.
- > Currently about 270'000 persons receive social assistance (8 Mio inhabitants).
- > Means tested.

Major elements of the Swiss welfare state

Responsibilities of cantons and the federation in the field of social security


Program	Extent of cover of program	Legislation	Funding	Implementation
Old Age and Survivors' Insurance	Universal insurance	0	1	1
Disability Insurance	Universal insurance	0	1	1
Additional Pensions	Universal insurance/ means-tested	0	1	2
Unemployment Insurance	Employment-related	0	- ^c	1
Maternity Insurance	Employment-related	0	-	-
Accident Insurance	Employment-related	0	-	0
Sickness Insurance	Universal insurance	0	1	1
Family Allowances	Employment-related	1	1 ^b	1
Unemployment Assistance	Means-tested	2	2	2
Social Assistance ^a	Means-tested	2	2	2

Notes: 3-point scale: 0= federation's responsibility, 1=shared responsibility between federation and cantons, 2= cantons' responsibility; - = contributory funded.
a=social assistance for asylum seekers excluded. Moreover, a federal law regulates cost reimbursement between cantons.
b=Some cantons provide means-tested family allowances for non-employed people.
c= The federation has to cover the deficit in times of severe unemployment

A conservative welfare state with strong liberal roots and a social-democratic element

- > How to classify the Swiss welfare state?
- > Esping-Andersen:
 - Social democratic: Universal, generous, citizens' right, tax-funded, equalizing and redistributive, no family bias, no employment bias, no insurance bias
 - Conservative: Employment-based, family bias, moderate-to-generous, non-equalizing, but status-maintaining, mainly insurance, more based on social contributions than taxes, benefits in return to contribution to insurance
 - Liberal: Slim state, basic social security, poverty alleviation, means tested

A conservative welfare state with strong liberal roots and a social-democratic element



Scheme	Type	Reason
Pension 1st pillar	Social democratic	Strongly redistributive
Pension 2nd pillar	Conservative	Insurance, employment-related
Pension 3rd pillar	Liberal	Benefits high income groups
Pensions additional pension	Liberal	Means tested
Disability pension	Conservative	Employment-related
Military Service	Conservative	Employment-related insurance
Sickness	Liberal (with some conservative additions)	Per head premiums; benefits single persons and high-income groups
Accident insurance	Conservative	Employment-related insurance
Unemployment insurance	Conservative	Employment-related insurance
Family allowances	Conservative	Employment-related scheme
Maternity insurance	Conservative -liberal	Weakly developed employment-related scheme
Social assistance	Liberal	Means-tested

Being late twice: delays in creating the old and the new welfare state

> Late introduction of the 'old' welfare state

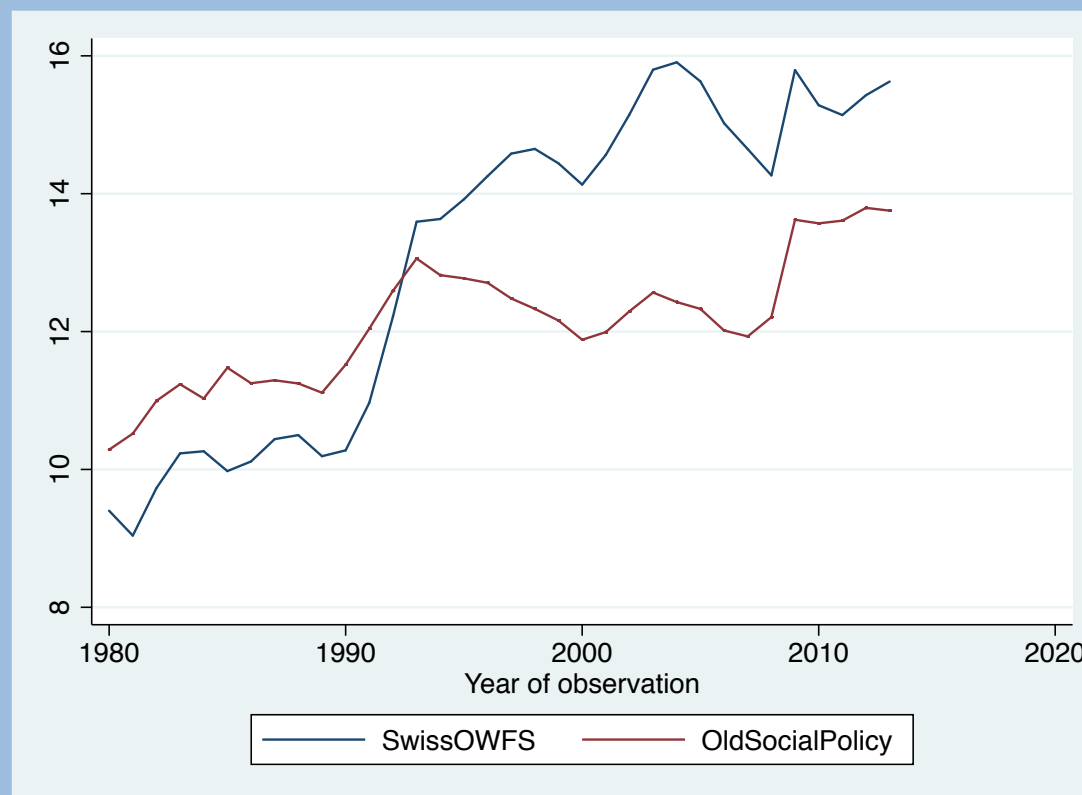
Year of introduction of major national social security schemes

	Switzerland	OECD-average
Accident insurance	1918	1905
Health insurance (compulsory)	1911 (1994)	1924
Pension insurance	1946	1917
Unemployment insurance	1982	1929
Family allowance	1952/2009	1944
Maternity insurance	2005	

Source: Schmidt, Manfred G. (1998): Sozialpolitik in Deutschland. Historische Entwicklung und internationaler Vergleich (2nd edition). Opladen: Leske und Budrich: Table 5, pp. 180-181.

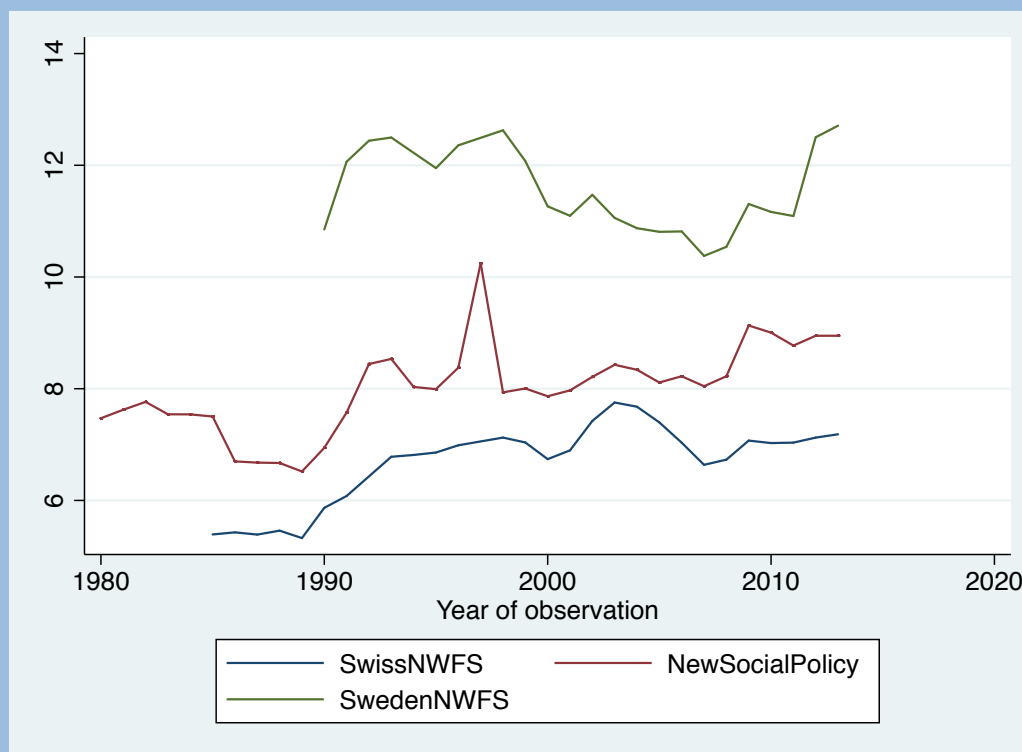
Being late twice: delays in creating the old and the new welfare state

- > Late introduction of the 'old' welfare state: Social security expenditures (% GDP) 'old' Western nations / Switzerland for OLD WELFARE STATE



Being late twice: delays in creating the old and the new welfare state

- > Late introduction of the 'new' welfare state (social investment welfare state: ALMP, family, education). (Spending in % of GDP, Switzerland, 'old' Western nations and Sweden)



Dealing with challenges: Pragmatic layering-the case of old age pensions

- > The story: The core has been occupational pensions, which have developed very early. They 'exempted' the room for new policies –any new addition needed to be compatible with the existing system.
- > The first pillar has been added to the second pillar after the socio-economic and political preconditions have been met (war experience, left representation in government).
- > The third pillar is the addition of the bourgeois majority.
- > A slow process with many institutional impediments and with a de facto veto position of the two main bourgeois parties.
- > A case for incremental policy development – and not for a set-up from scratch

Innovations? Advantages and disadvantages of constrained politics

- > Why has been Switzerland so late?
- > (1) A democracy since 1848 – and the Western welfare state has been introduced by autocracies in order to secure output legitimacy.
- > (2) A weak federal state which needs the constitutional competencies to run (federal) social security programs.
- > (3) A weak federal state that lacked fiscal resources.
- > (4) The veto-position of Cantons which protected their competencies and existing cantonal programs.
- > (5) A weak left and a weak Christian-Democracy.
- > (6) And connected and particularly important: Direct democracy

Innovations? Advantages and disadvantages of constrained politics

From constitutional decision to enactment of national social security schemes

	Year of Constitutional decision	Year of Enactment	Time span elapsed (in years)
Health insurance	1890	1914	24
Health insurance (compulsory)	1890	1996	106
Accident insurance	1890	1918	28
Pensions (1 st pillar)	1925	1948	23
Pensions (1 st pillar) (additional pensions)	1925	1966	41
Disability insurance	1925	1960	35
Family allowances	1945	1953 (Agriculture)	8
		2009 (all employees)	64
Maternity insurance	1945	2005	60
Unemployment insurance (voluntary)	1947	1952	5
Pensions (2 nd and 3 rd pillar)	1972	1985	13
Unemployment insurance (compulsory)	1976	1984	8

Source: Gilliard, Pierre (1993): *Politique sociale*. In: Schmidt, Gerhard (ed.): *Handbuch Politisches System der Schweiz. Band 4. Politikbereiche*. Bern etc.: Haupt: 111-223, here: 137; plus updates.

Innovations? Advantages and disadvantages of constrained politics

- > This makes the system very slow: the case of the recently failed reform of the first pillar.
- > In the past, this was an advantage in fiscal respect, since for long time fiscal costs have been low.
- > However it also creates a ratchet-effect: Once established it is very unlikely to retrench an established social security scheme.
- > Due to the slowness and the many compromises, innovations are rare.
- > If there are innovations, they come from previous experiences on the cantonal level or from learning from other countries.

Conclusions

- > A complex system of a modern welfare state
- > Strong liberal roots, in general a conservative character with at least one social democratic element
- > A late welfare state –both in the field of the ‘old’ and the ‘new’ welfare state
- > Political and institutional impediments to reform – in particular direct democracy
- > But sometimes it is an advantage to be late: saving costs and learning from other experiences.